

# **Understanding and Combating Return Preparer Fraud - A Combined Effort**

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Refund and Cyber Crimes

# Internal Revenue Service Criminal Investigation Mission

*Criminal Investigation serves the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law.*

# Refund and Cyber Crimes

- Return Preparer Program
- Questionable Refund Program
- Identity Theft
- Cyber Crimes

# Return Preparer Fraud

- Preparation and filing of false income tax returns by unscrupulous preparers who:
  - Inflate personal or business expenses
  - Create false deductions
  - Excessive exemptions
- Preparers' clients may or may not have knowledge of the false expenses, deductions, exemptions and/or credits shown on their tax returns.

# Investigative Approach

- Scheme Development
- Taxpayers and Informants
- Collaboration with other IRS Business Units

# Criminal Violations

- Title 26 USC Section 7206(2)
- 18 USC 286 – Conspiracy to File False Claims (Tax-related)
- 18 USC 287 – Filing False Claims (Tax-related)
- 18 USC 641 – Theft of Government Funds
- 18 USC 510 – Treasury Check Charge
- 18 USC 1029 – Access Device Fraud
- 18 USC 1708 – Mail Theft
- 18 USC 1028 – Identity Theft

# Education & Outreach

- Knock and Talk Visit Program
  - Special agents partner with revenue agents
  - Educational visits with return preparers
  - Identified by scoring system
- Field Office special agent visits
- Media Publicity/YouTube Videos
- Success measures

# Return Preparer Program Statistics

Item	FY 2015	FY2016	FY2017	FY2018
Investigations Initiated	266	252	302	224
Prosecution Recommendations	238	174	193	177
Convictions	210	216	164	150
Conviction Rate	96.8%	98.6%	95.9%	96.8%
Sentenced	204	202	190	148
Avg. Months to Serve	27	22	26	25

# Relevant Conduct in Return Preparer Investigations

- Return preparer investigations typically include a large volume of returns displaying the same fraudulent pattern.
- Sentencing guidelines rely on loss amounts.
- Relevant conduct tax loss figures for criminal sentencing purposes can be extrapolated based on either a statistical sampling of the client return population or IRS statistics for the relevant geographic region.

# Electronic Filing Identification Number

Item	FY 2015	FY2016	FY2017	FY2018
EFINs	329	358	412	302
Suspended/Revoked				

# Warning Signs of Potential Fraud

- Income insufficient to cover claimed expenses
- Claiming false dependents
- Inflated itemized deductions including:  
charitable contributions, medical or dental  
expenses
- Claiming tax credits based on false  
income/expenses
- False business expenses created to offset  
income

# Oversight of Emerging Threats

- Data Breaches
- EFINS/PTINS
- False/fraudulent ITINs

# Information Security

## Evolving Threats

- Data Compromises/Computer Thefts
- Compromised Tax Professionals
  - Records used to generate ID theft claims mirroring actual taxpayer returns.
  - For 2017, 194 tax professionals (CPAs, enrolled agents, etc.) were compromised.
  - For 2018 , 523 tax professionals were compromised.
  - For 2019 (first quarter) 190 tax professionals were compromised
- Compromised EFINs/PTINs

# Information Security

## Evolving Threats (cont.)

- Payroll Web-portals
  - Involves payroll web-portals used by employees to access/view their W-2s, change payroll withholding, and other payroll information.
  - 5 to 7 business entities are compromised per day.
  - 1000's of clients
  - Ongoing investigations.
- Other Threats

# Protect

- Limit access to data and information
- Patch operating systems and applications
- Install/activate software and hardware firewalls on business networks
- Secure wireless access point and networks
- Set up web and email filters

# Mitigating the Breach

- Contact IRS Stakeholder Liaison When Compromise Detected
- <http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Stakeholder-Liaison-Local-Contacts-1>
- Contact Impacted State Tax Agencies
- [https://www.irs.gov/businesses/small-businesses-self-employed/state-links-1?\\_ga=1.124839048.382356062.1475763178](https://www.irs.gov/businesses/small-businesses-self-employed/state-links-1?_ga=1.124839048.382356062.1475763178)
- Federation of Tax Administrators at [StateAlert@taxadmin.org](mailto:StateAlert@taxadmin.org)
- Follow State Reporting Requirements (i.e. State Attorney General, State Consumer Protection Bureaus, State Police)
- File a complaint with the Internet Crime Complaint Center (IC3,) operated by the Federal Bureau of Investigation.
- Contact Local Police, US Secret Service, Other Law Enforcement
- Report Compromise to Federal Trade Commission <https://www.identitytheft.gov/>

# Stolen Data?

- Used to prepare and file false tax returns with the stolen identity information.
- Self-employed scheme for 2018.
- Used to obtain credit.
- Sold on the dark web.

# THIS DOMAIN HAS BEEN SEIZED

The domain for

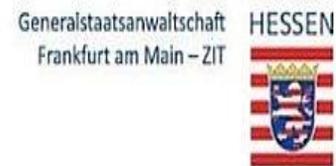
## xDedic

has been seized by the Federal Bureau of Investigation pursuant to a seizure warrant issued by the United States District Court for the Middle District of Florida under the authority of 18 U.S.C. § 981(b) as part of coordinated law enforcement action by:



federal  
prosecutor's  
office





## Die Plattform und der kriminelle Inhalt wurden beschlagnahmt

durch das Bundeskriminalamt  
im Auftrag der Generalstaatsanwaltschaft Frankfurt am Main  
im Rahmen einer international koordinierten Operation.

## The platform and the criminal content have been seized

by the Federal Criminal Police Office (BKA)  
on behalf of Attorney General's Office in Frankfurt am Main  
in the course of an international coordinated law enforcement operation.



# Return Preparer Fraud Investigative Results

# Judge sentences Keys tax preparer to five years in prison



# **Minnesota Tax Return Preparer Sentenced to More Than 10 Years in Prison for Leading a Multimillion Dollar IRS Fraud Scheme and Failing to Appear at Sentencing**



# Northern Nevada Tax Return Preparer Sentenced To Five Years in Prison For Tax Fraud Conspiracy And Theft Of Elder Client's Money



